

OLYMPIA, WASHINGTON

September 7, 2005

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Bill Tonkin, Foster Pepper & Shefelman
Drew Scott, Office of the Attorney General
Shad Pruitt, Office of the State Treasurer
Chia Jung Yang, Montague DeRose & Associates
Nancy Adams, Office of the State Treasurer
Dean Torkelson, Seattle-Northwest Securities
Svein Braseth, Office of the State Treasurer
Vicki Cox, Office of the State Treasurer
Nancy Notter, Office of the State Treasurer
Susan Penley, Office of the State Treasurer
Barton Potter, Office of the State Treasurer
Jeff Caldwell, Department of Transportation
Lucinda L. Broussard, Tacoma Narrows Bridge Project
DeeAnn Bacon, Tacoma Narrows Bridge Project
Bill Starkey, Seattle-Northwest Securities
Annette Sommer, Seattle-Northwest Securities
Noah Crocker, Office of the State Treasurer
Mike Roberts, Office of Financial Management

Chairman Murphy called the meeting to order.

Lt. Governor Owen moved the minutes for the August 16, 2005 meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said proposed Resolution No. 1024 accepts a bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006C in the aggregate principal amount of \$55,000,000, more or less; fixing the interest rates; in accordance with Resolution No. 1016 of the Committee. The Series 2006C Bonds are being issued to pay and reimburse state expenditures for construction and improvement of state highways (the Tacoma Narrows Bridge), including capitalized interest on the Series 2006C Bonds to and including June 1, 2007. Sealed and electronic bids were received at the Office of the State Treasurer, September 7, 2005 at 7:30 a.m. Pacific Time. The Series 2006C Bonds are tax-exempt current interest bonds. The interest will be paid semi-annually on the outstanding principal on each June 1 and December 1, beginning December 1, 2005. Resolution No. 1024 provides for capitalization of

the interest that will be due on the Series 2006C Bonds during the remainder of the construction period of the Tacoma Narrows Bridge to and including June 1, 2007. For that purpose, a portion (currently estimated at \$4,500,000) of the sale proceeds of the Series 2006C Bonds will be deposited in an escrow account to be held in trust by Wells Fargo Bank, National Association ("Trustee"), pursuant to an Escrow Agreement between the state and the Trustee. The Escrow Agreement will direct the Trustee to make transfers from the escrow account to the State Treasurer in specified amounts as required to pay the interest due on the Series 2006C Bonds on each interest payment date from December 1, 2005 through June 1, 2007.

Mr. Martin said RCW 39.46.070(2) provides that authorized costs of bonds issued by the state for the Tacoma Narrows Bridge "include capitalized interest for up to seventy-two months from the date of issuance." Thus, state law expressly permits capitalizing interest on the Series 2006C Bonds. Also, under federal tax law, interest payments on bonds (such as the Series 2006C Bonds) issued to finance a capital project (such as the Tacoma Narrows Bridge) during the construction period of the capital project are properly treated as capital expenditures for the project. The Office of the State Treasurer will work cooperatively with the Department of Transportation to monitor expenditures of the Series 2006C Bond proceeds, including those proceeds held by the Trustee used to pay capitalized interest on the Series 2006C Bonds. Expenditures of the Series 2006C Bond proceeds will be specifically tracked to provide evidence that those expenditures have been made timely in accordance with general federal tax law requirements and the 2-year spending exception to the arbitrage rebate requirement. Mr. Martin said this was a change from the zero coupon bonds normally sold for the Tacoma Narrows Bridge Project.

Mr. Torkelson said we have been using zero coupon bonds for the previous six bond sales. The current sale included capitalized interest bonds instead of zero coupon bonds. The zero coupon bonds had been used because there is no toll available as the source of repayment until the completion of the project. There is a projected savings of approximately \$3 million on this sale using capitalized interest bonds instead of zero coupon bonds. The financing side is making the project successful.

Chairman Murphy acknowledged Ms. Bacon and Ms. Broussard of the Tacoma Narrows Bridge Project and thanked them for attending. Mr. Martin said Citigroup Global Markets Inc. submitted a true interest cost (TIC) of 4.4430417%; Prager, Sealy & Co. LLC submitted a TIC of 4.4452237%; Banc of America Securities LLC submitted a TIC of 4.4500414%; First Albany Capital Inc. submitted a TIC of 4.4581710%; Merrill Lynch & Co. submitted a TIC of 4.4587156%; UBS Financial Services Inc. submitted a TIC of 4.4635564% and RBC Dain Rauscher Inc. submitted a TIC of 4.5029979%, with the apparent low bidder being Citigroup Global Markets Inc.

Mr. Martin presented proposed Resolution 1024 to the committee.

Resolution 1024 awards the sale of \$55,000,000, more or less, State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006C, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843), and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution 1024. Chairman Murphy seconded the motion and the resolution was adopted.

There being nothing further to come before the committee, the State Finance Committee meeting was adjourned at 10:09 a.m. and the Public Deposit Protection Commission meeting was called to order.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Christine O. Gregoire, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary